

CENTRAL INTELLIGENCE AGENCY
OFFICE OF NATIONAL ESTIMATES

DRAFT

9 December 1957

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MEMORANDUM FOR THE DIRECTOR

SUBJECT: The Situation in Iran

1. Recent reports from Iran indicate that: (a) the Shah is re-evaluating Iran's foreign policy as a result of deep dissatisfaction with his relations with the West and (b) the Shah, although presently in control of the situation in Iran, faces serious long-term threats to his rule which can be warded off only by drastic changes in the country's domestic policies. These developments suggest the desirability of a careful analysis of the situation in Iran and an estimate of probable future developments.

2. During the past several weeks the Shah has taken every opportunity to convey to the US Government his dissatisfaction with the present level and character of economic and military aid which Iran is receiving from the West and to hint rather broadly that unless this aid is stepped up he must perforce consider one or both of two courses: (a) reducing his commitments to the West, principally under the Baghdad Pact, and (b) looking to the Soviets for assistance.

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3. The Shah's motives are probably similar to those which are currently animating nearly every other Middle Eastern country which has associated itself with the West. He is probably genuinely concerned about the advance of Soviet influence and prestige throughout the area and the concomitant decline of Western influence and prestige. He is probably worried about the new Soviet position in Syria and the possibility that it is only a preliminary to the establishment of a Soviet base in that country and elsewhere in the area. He would like to have more impressive weapons in order, among other things, to increase his own prestige and raise morale in the armed forces. He has become increasingly impressed with his own position in Iran and probably feels he should play a still more authoritative role in order to lay rumors that he is under the US thumb. Most important, he probably calculates that the US is currently highly vulnerable to threats and appeals because of its fears of the Soviet advance and its need for Middle East allies.

4. The Shah does have serious domestic, political, and economic problems of a long-range, though nonetheless pressing character. It is significant that during the past few months we have for the first time received reports of organized opposition to the Shah's role in government led by top-level army officers. The Shah has an almost pathological fear of opposition and has sternly repressed

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even some moderate elements whose political support may be essential if he is to carry through much-needed economic reforms. He has demonstrated his serious concern for building up support among government employees and the military by proposing an \$80 million wage increase for next year, which would add about thirty percent to the national budget.

5. This wage increase would be largely responsible for an anticipated budget deficit next year of about \$50 million. Meeting this deficit by means other than foreign aid is probably possible only by such rigorous measures as effective tax reform, improved credit controls, and diversion of oil revenues from the development program, all of which the Shah is reluctant to try. He has made it clear that he feels that he must have US assistance to meet the anticipated deficit and has hinted that Soviet assistance is a possible alternative, reporting several attractive Soviet overtures on the subject of aid.

6. His whole approval, however, will be challenged by a US decision to reject his request for budgetary aid, which we understand has just been made and which is to be communicated to the Shah in the immediate future.

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7. Since the Shah's reaction to the US denial of budgetary aid will have an important and perhaps a determining influence upon the course of events in Iran, we believe that an estimate can best be undertaken after clarification of the Shah's reaction. This may be expected to become apparent during the next few weeks and will probably be reflected in Iran's actions at the Baghdad Pact Council Meeting schedules for 27 January 1958.

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